



DEFENSE REFORM INITIATIVE

PERFORMANCE METRICS AND SCORECARD

FINAL REPORT
INTRODUCTION

Defense Reform Initiative Performance Metrics and Scorecard

Introduction

Reform in the Department of Defense

The massive U.S. defense buildup of the 1980s achieved its goal with the disintegration of the Soviet empire. After the Cold War, national defense policy shifted from sustained wars of attrition with the Soviets to containing multiple major regional conflicts on a more limited basis. Bringing force levels down from the Cold War zenith to those required now has been the focus of several major national defense studies: the *1991 Base Force Review*, the *Bottom-Up Review* in 1993, the *Report of 1995 Commission on Roles and Missions of the Armed Forces*, and (most recently) the *Joint Vision 2010*. The *1997 Quadrennial Defense Review* (QDR) built the foundation to support the warfighting capabilities called for in the *Joint Vision 2010*. The QDR set forth the elements of the DoD corporate vision for the future. Defense reform addresses the third element of the DoD corporate vision for igniting a “revolution in business affairs” within DoD to bring to the Department management techniques and business practices that have restored American corporations to world leadership. In recognition of this goal, the Secretary of Defense (SECDEF) formed the Task Force on Defense Reform in May 1997. Based on the recommendations of the Task Force, the Defense Reform Initiative (DRI) was launched in November 1997.

The business dynamics of the force transition have proven a major management challenge. The de-emphasis on major weapon system procurement was swift and severe. In the post-Cold War environment, DoD's reductions in spending came disproportionately from reductions in procurement spending. As one of the discretionary spending accounts, procurement spending is readily subject to migration of funding because of unprogrammed operating expenses to support deployments, unrealized savings from efficiency programs, and new program demands. The 1997 QDR's primary Defense resources investment goal is to increase procurement funding to \$60B by FY 2001. The DRI supports this goal by promoting operational and infrastructure efficiency initiatives that preserve funding for force modernization through procurement funding.



Defense Reform Initiative Performance Metrics and Scorecard

- **Reform in the Department of Defense**
 - Cold War's end brings need for major downsizing of forces
 - *Joint Vision 2010* establishes warfighting capabilities
 - QDR 1997 builds foundation to support *Joint Vision 2010*
 - DRI catalyzes "Revolution in Business Affairs"
 - DoD needs an increase in procurement spending to modernize forces
 - DRI promotes operational and infrastructure efficiency initiatives that provide increased procurement funds

Reform in the Department of Defense

The Defense Reform Initiative was established during a time of considerable change within the DoD and the Federal Government. Several key business areas in the Department had initiated or were initiating reform activities. One such major reform initiative complementary to the DRI is the one related to acquisition and logistics. This initiative is a key partner to DRI that supports efforts to respond to the warfighters' needs with products and services that work better, cost less, and are obtained from a globally competitive national industrial base. The major goals of acquisition and logistics reform include the following:

Fielding high-quality defense products quickly and supporting them responsively: Acquisition and logistics reform objectives in this area include reducing cycle time for product development and delivery and reducing logistics response time.

Lowering the total ownership cost of defense products: Acquisition and logistics reform objectives in this area include minimizing cost growth in major defense acquisition programs and reducing logistics support costs for weapons systems.

Reducing the overhead cost of the acquisition and logistics infrastructure: Acquisition and logistics reform objectives in this area include reducing the funding required by logistics infrastructure and other infrastructure.



Defense Reform Initiative Performance Metrics and Scorecard

- **Reform in the Department of Defense**
 - Defense Acquisition and Logistics Reform, a Key Partner to DRI
 - Field high-quality defense products quickly and support them responsively
 - Lower the total ownership cost of Defense products
 - Reduce the overhead cost of the acquisition and logistics infrastructure

Reform in the Department of Defense

Several other initiatives are key partners to the DRI: Financial Management Reform, Quality Management (QM) Reform, and the National Partnership for Reinventing Government.

The aim of the Department's Financial Management Reform is to streamline and redesign DoD financial processes and organizations in order to make them optimally effective and to reduce costs. Reforms also seek to ensure that financial management fulfills the needs of decision makers, satisfies statutory requirements, minimizes the potential for fraud, and provides superior customer service.

The aim of Quality Management Reform is to continually improve the quality of management operations. The DoD Quality Management Office provides skilled assistance in planning and implementing QM efforts, collects and displays best practices data on its Web site, and validates DoD-wide process improvements, resulting in improved readiness, cost avoidance, and savings in worker productivity.

The mission of the National Partnership for Reinventing Government (NPR), an overarching Federal initiative, is to create a government that works better, costs less, and achieves the results that Americans care about. The NPR involves the designation of selected DoD organizations as reinvention laboratories, provides a mechanism for waivers to existing policies and directives to allow for experimentation and eliminate barriers, and recognizes team accomplishments in reengineering business practices. The four basic principles of the NPR are putting customers first, cutting red tape, empowering employees to get results, and getting back to basics



Defense Reform Initiative Performance Metrics and Scorecard

- **Reform in the Department of Defense**
 - Financial Management Reform
 - Streamline and redesign DoD financial processes
 - Quality Management Reform
 - Validate DoD-wide process improvements
 - National Partnership for Reinventing Government—Basic Principles:
 - Putting customers first
 - Cutting red tape
 - Empowering employees to get results
 - Getting back to basics

The Defense Reform Initiative (DRI)

Consistent with the QDR and the National Partnership for Reinventing Government, the Defense Reform Initiative (DRI) has two principal purposes: (1) increase Departmental efficiencies and apply resultant savings to the modernization of America's fighting forces and (2) present a commercially friendly interface to DoD's contractors and suppliers to make it faster and cheaper to compete for the Department's business.

The underlying principles for defense reform are focus the enterprise on an unifying vision, commit the leadership to change, focus on core competencies, streamline organizations for agility, invest in people, exploit information technology, and break down barriers between organizations.

The DRI Report released in 1997 identified four pillars, or major areas, of defense reform: Reengineer - adopt best practices; Consolidate - reorganize; Compete - apply market mechanisms; and Eliminate - reduce excess support structures. These four pillars were expanded to nine elements with the 1999 DRI Update and are now restructured into seven: Adopting Best Business Practices; Quality of Life; Financial Management; Competition; Savings Through Eliminating Unneeded Infrastructure; Transforming Acquisition and Logistics; and Taking Advantage of Cyberspace Without Becoming Vulnerable. As some initiatives reach their end state and other, new initiatives begin, the structure of the DRI will continue to evolve. However, the purpose and underlying principles remain the same, providing a consistent point on the horizon toward which the DoD leadership can steer, as they move on the road to reform.



Defense Reform Initiative Performance Metrics and Scorecard

- **The Defense Reform Initiative**
 - DRI has two principal purposes:
 - Increase efficiencies and apply savings to modernization
 - Make it faster and cheaper to compete for DoD business
 - The Seven Defense Reform Elements:
 - Adopting Best Business Practices
 - Quality of Life
 - Financial Management
 - Competition
 - Savings Through Eliminating Unneeded Infrastructure
 - Transforming Acquisition and Logistics
 - Taking Advantage of Cyberspace Without Becoming Vulnerable

The Defense Reform Initiative Structure

The Defense Management Council (DMC) was established as the Board of Directors to oversee the continued reengineering of the Department of Defense. The DMC ensures that reform initiatives directed by the Secretary of Defense are carried out, it recommends reforms to the Secretary, and it reviews the Defense Agencies' performance contracts. The DMC is a first—an attempt to create a Board of Directors of the senior military and civilian leadership of the Department to provide direction on a range of critical reform and reform-related issues.

Early in 1997, the Under Secretary of Defense (Comptroller) issued a series of Management Reform Memoranda (MRMs) covering a wide range of issues, with requirements for review and reports regarding implementation by various organizations in the Department. After the Defense Reform Initiative Report was released in November 1997, Defense Reform Initiative Directives (DRIDs) were released covering issues that required reports to the Deputy Secretary of Defense on review or implementation of most of the initiatives identified in the report. As new ideas for changing the way DoD does business emerged, other DRIDs were released. Approximately 70 percent of all the MRMs and DRIDs have been closed out as complete. The MRMs and DRIDs generally assign responsibility for the initiative to someone in a key leadership role in the Office of the Secretary of Defense or a Defense Agency. Some of these leaders act as “process owners” for DoD core processes such as acquisition management, financial management, human resources management, information management, installations management, and logistics management. Others lead organizations that play a key role within that process. Many of the initiatives impact more than one core process. Quite often, in these cases, the MRM or DRID assigns shared responsibility or coordination requirements. In all cases, the initiatives focus on changing a DoD process in some way, whether it is introducing new or different steps or eliminating steps in the process; introducing IT to improve it; reassigning the organization or restructuring the organization responsible for the process; or changing the people who work the process through training, job redesign, or reduction.

The Defense Reform Initiative Office was established to facilitate, coordinate, and introduce reform initiatives complementary to other ongoing reforms, within and outside of the Department. The DRI Office operates with a small staff of eight. It is their responsibility to monitor this monumental effort and keep it moving toward its ultimate destination.



Defense Reform Initiative Performance Metrics and Scorecard

- **The Defense Reform Initiative Structure**
 - Defense Management Council—Board Of Directors to oversee DoD's continuing reengineering
 - Directives issued to date
 - 17 Management Reform Memorandums
 - 54 Defense Reform Initiative Directives
 - MRMs/DRIDs improve these core business processes
 - Acquisition, Financial, Human Resources, Information, Installations and Logistics Management
 - DRI Office facilitates MRM/DRID implementation

The Need for Effective Performance Measurement

A key element of any process change is measuring to see whether the change has achieved its desired result. The contractor calls this “measuring for results.” This phrase refers to a results-driven management process that involves four steps: (1) identifying important performance goals consistent with an organization's mission and vision, (2) measuring how the organization is doing against those goals, (3) using the lessons learned to make informed decisions and improve performance, and (4) reporting performance information to stakeholders.

Results-driven management is receiving a substantial amount of attention at all levels of government. Now, more than ever, government organizations must focus on the results they achieve because:

- **It is good management.** Performance management allows managers to track progress toward their goals, flag possible problems, and continuously improve. In these times of limited financial resources, it also helps managers better identify priorities and allocate resources.
- **It counters the growing tide of taxpayer skepticism.** This skepticism can best be addressed by effectively communicating what government does. Systematically documenting and reporting performance in concrete terms allow government organizations to demonstrate how much they do, how well they do it, and when they are doing better.



Defense Reform Initiative Performance Metrics and Scorecard

- **The Need for Effective Performance Measurement**
 - Measuring for Results
 - Identify goals consistent with mission and vision
 - Measure how the organization is doing against goals
 - Use results to make better decisions and improve performance
 - Report results to stakeholders
 - Results-Driven Management is important because:
 - It is good management
 - It counters the growing tide of taxpayer skepticism

The Need for Effective Performance Measurement

Focusing on results is not only critical to good management—in many jurisdictions, it is also the law. Federal agencies, in particular, must respond effectively to the following government mandates that guide them:

- The *Government Performance and Results Act* (GPRA) of 1993 requires agencies to conduct strategic planning, establish annual goals and measures, and report every year on performance.
- The *Chief Financial Officers Act* of 1990 requires OMB to coordinate a "systematic measurement of performance."
- The Clinton Administration's *National Performance Review* recommends aggressive implementation of GPRA. Through Executive Order, it also requires agencies to set customer service standards.
- The *Information Technology Management Act* of 1996 (*Clinger-Cohen Act*), the *Joint Financial Management Improvement Program*, and the 1995 *FASAB Federal Government Cost Accounting Standards* all require agencies to take actions to improve their management and performance.
- The *Government Management Reform Act* (GMRA) of 1994 extends the financial statement preparations and auditing provisions of the CFO Act to all Federal agencies.
- The *Federal Manager's Financial Integrity Act* (FMFIA) of 1982 requires all agencies to create a system of internal controls over processes to protect Federal resources from waste, abuse, misuse, and misappropriation.



Defense Reform Initiative Performance Metrics and Scorecard

- **The Need for Effective Performance Measurement**
 - Government Mandates for Performance Measurement
 - *Government Performance and Results Act of 1993*
 - *Chief Financial Officers Act of 1990*
 - *National Performance Review*
 - *Information Technology Management Act of 1996 (Clinger-Cohen Act)*
 - *Joint Financial Management Improvement Program*
 - *1995 FASAB Federal Government Cost Accounting Standards*
 - *Government Management Reform Act of 1994*
 - *Federal Manager's Financial Integrity Act of 1982*

Performance Measurement in DoD

Performance measurement within DoD has taken hold. The SECDEF's *Annual Report to the President and the Congress* now contains an appendix that outlines the Department's Government Performance and Results Act Performance Plan. Defense Agency Performance Contracts have been or are being established between the Directors of designated Defense Agencies and DoD Field Activities, the Principal Staff Assistants responsible for those agencies or activities, and the Deputy Secretary of Defense. In addition, major initiatives such as the Defense Acquisition Reform Initiative include performance measures as part of their management approach.

In August 1999, the General Accounting Office released a report entitled *Improved Performance Measures Would Enhance Defense Reform Initiative*. That report indicated that most of the initiatives within DRI that the GAO examined had output measures that focus primarily on implementation progress or status instead of outcome measures that focus on results.

Given the recognition of the importance of effective performance measurement and the need by some initiative owners for assistance in establishing the right set of measures, the contractor was awarded a contract to work with the Defense Reform Initiative Office (DRIO) and initiative teams in identifying and establishing effective performance measures.



Defense Reform Initiative Performance Metrics and Scorecard

- **Performance Measurement in DoD**
 - SECDEF's *Annual Report to the President and Congress*
 - Defense Agency Performance Contracts
 - August 1999 GAO Report recommends enhanced performance measures for DRI
 - December 1999 - DRI Office awards contract to the contractor

The Defense Reform Initiative Performance Metrics and Scorecard Project

The the contractor project team comprised eight consultants who worked in specialty areas such as acquisition, finance, logistics and transportation, competition and infrastructure, and information security.

the contractor took a traditional approach to meeting the DRIO requirements for the Defense Reform Initiative Performance Metrics and Scorecard project. First, members of the project team were assigned initiatives related to their specialty areas. They reviewed available written documentation as well as information available on initiative-related Web sites. The focus of this effort was to gather background information, identify the process and/or initiative owner, identify goals related to the initiative, and analyze the metrics in use.

Next, the DRIO/the contractor team conducted a Performance Metric Kickoff Meeting with DoD Components affected by DRI efforts. This meeting provided information regarding the project tasks and schedule, as well as a briefing on the contractor's *Measuring For Results* performance measurement methodology.

DRIO/the contractor teams then conducted interviews and, in some cases, facilitated sessions with initiative leads and teams. The desired outcome of these sessions was to develop a good set of measures, both process (input, activity, output) and outcome, that would provide the information required to effectively manage the initiative. When necessary and when data existed, performance scorecards were developed.



Defense Reform Initiative Performance Metrics and Scorecard

- **The DRI Performance Metrics and Scorecard Project**
 - The contractor teams were assigned with Subject Matter Experts in:
 - Acquisition
 - Finance
 - Logistics & Transportation
 - Competition & Infrastructure
 - Information Security
 - the contractor approach included the following steps:
 - Review of available documentation/information/Web sites
 - Kickoff meeting with affected DoD Components
 - Interviews with initiative leads and teams
 - Development of scorecards

Observations

Following this section is information related to specific groups of initiatives, the initiatives themselves, and the performance scorecards that are being used or were developed as a result of this project. Recommendations are also included.

A number of observations were made in the course of the project. First, even with the recognition of the need for effective performance measurement, there is still some resistance to it within DoD as there is in all organizations. In its report, the GAO recognized that some initiatives were still at the implementation stage, where the use of outcome measures might be premature. Those initiatives still exist, and some are starting to look forward and plan for outcome-related measures. Other initiatives are clearly ready for outcome measures and either have them in place or have groups working on establishing them. The project team worked with these groups and attempted to assist them in their efforts. A number of initiatives are near their end state. In some of these cases, outcome measures were never put in place to measure the effect of these initiatives. This represents a “missed opportunity” for the Department, since the process/initiative owner will never be able to judge the real impact of the initiative. Other initiatives should have good measures, including outcome measures, but their initiative owners or leads fear the exposure of good or bad news. The bad news is that the initiative is not working, and there is a reluctance to report that until the issues at stake are resolved. The good news is that the initiative is working—savings are being realized—but if the truth be known, the Comptroller would cut the budget. These examples exist in every organization, and DoD is no different. It is critical that DoD leadership create an environment that overcomes the resistance to performance measurement brought on by fear of exposure of good or bad news. The Defense workforce must recognize that performance data must be collected, validated, analyzed, and reported so that process owners can act to continue improvement.



Defense Reform Initiative Performance Metrics and Scorecard

- **Observations**
 - Some resistance to performance measurement still exists
 - It is too early in the process continuum to measure outcomes on some initiatives
 - Some initiatives are presently being measured with scorecards
 - Some completed initiatives were never measured - “missed opportunity”
 - Measure may give visibility to poor performance
 - Measure may give visibility to savings and lead to budget cut
 - Leadership support of performance measure visibility is paramount

Observations

The second observation relates to education. Performance measurement is a new concept to many in DoD. However, many are or will be involved in the implementation of these very important initiatives. Many of those may be required to take part in the measurement - collection - validation - analysis - report process. They must understand the nature of performance measurement in general, and their measures specifically. Then there are those who are not part of the performance measurement process, but are impacted by the initiative. They too need to understand what is being measured and why. Education in performance measurement is important at all levels. An effective communications program, in conjunction with an effective training program, creates an environment for performance measurement to work.



Defense Reform Initiative Performance Metrics and Scorecard

- **Observations**
 - Ongoing Education in Performance Measurement Required
 - Many in DoD are involved
 - Many others will be affected
 - All must understand what's being measured and why
 - Communications in conjunction with education creates a positive attitude